

**STATE WATER RESOURCES CONTROL BOARD
BOARD MEETING SESSION – DIVISION OF FINANCIAL ASSISTANCE
SEPTEMBER 15, 2020**

ITEM 3

SUBJECT

CONSIDERATION OF A RESOLUTION TO APPROVE ZERO PERCENT LOAN AND ADDITIONAL SMALL COMMUNITY GRANT (SCG) FUNDING FOR THE CITY OF MT. SHASTA'S STATE MANDATED WASTEWATER TREATMENT AND DISPOSAL PROJECT (PROJECT), CLEAN WATER STATE REVOLVING FUND (CWSRF) PROJECT NO. C-06-8174-210

DISCUSSION

The City of Mt. Shasta (City) is a severely disadvantaged community located in Siskiyou County, California. The City serves approximately 3,281 residents and has a median household income (MHI) of \$35,238 (49% of the statewide MHI). On October 4, 2012, the Central Valley Regional Water Quality Control Board (Central Valley Regional Water Board) issued Time Schedule Order (TSO) No. R5-2012-0087 to the City. The TSO included a compliance schedule for the City to bring ammonia, copper, zinc, 5 day biochemical oxygen demand (BOD5), Total Suspended Solids (TSS), and pH levels into compliance. The TSO was subsequently amended to TSO No. R5-2012-0087-01 via TSO Amendment Order R5-2017-0042. TSO No. R5-2012-0087-01 revised effluent monitoring data for ammonia. It also revised the compliance dates for ammonia, copper, and zinc.

The objective of the Project is to ensure that the City's wastewater treatment plant is meeting Central Valley Regional Water Board treatment and discharge requirements. The Project consists of: replacement of the existing lagoon treatment systems with a new activated sludge system including treatment basins, secondary clarifiers, and aerobic digesters; construction of a sludge dewatering facility, filtration facility, and outfall and diffuser improvements; installation of self-cleaning headworks screens; replacement of the existing disinfection system with a closed vessel ultraviolet disinfection system; and conversion of Lagoon 1 to an emergency equalization basin.

On May 23, 2018, the Division of Financial Assistance (DFA) executed Funding Agreement No. D17-01041 (Agreement) with the City for \$7,137,091. The City received \$5,800,161 in Proposition 1 SCG grant funding and \$1,336,930 in CWSRF loan funding at a 1.8% interest rate. The City contributed \$263,070 and received \$11,896,00 from United States Department of Agriculture (USDA) Rural Development Program. The City also received \$199,839 in Proposition 1 SCG planning grant funding from DFA in 2016.

The construction bids came back higher than originally estimated, increasing the total Project cost to \$23,999,674. The USDA funding amount increased by \$263,070 to \$12,159,070. The City is requesting an additional \$4,240,604 in funding from DFA for the Project to account for the increased bids. The bids expired in December 2019 and

the City hopes to rebid the Project in fall 2020. The City has discussed the Project with local contractors and the bids are expected to come in around the same amount. The City has requested that DFA work on the proposed funding increase while the City rebids the Project so that they may have a few months of construction started prior to winter shutdowns. The table below summarizes the funding contributions from each source.

Funding Source	Current Amount	Proposed Amount
City	\$263,070	\$263,070
CWSRF Planning	\$199,839	\$199,839
CWSRF Construction Grant	\$5,800,161	\$7,800,161
CWSRF Loan	\$1,336,930	\$3,577,534*
USDA	\$11,896,000	\$12,159,070
Total	\$19,496,000	\$23,999,674*

*Proposed loan amount and total Project cost may change after the Project is rebid.

The City adopted higher wastewater rates in 2017 which included a five-year increase that ends in 2021-2022. Residential rates are scheduled to increase from \$23.95 to \$61.00 over the five-year period. The City is financially strained due to Administrative Civil Liability fines, decreasing revenues due to COVID-19, and new solar debt that was acquired in 2019.

On July 2, 2020, both the City and the prosecution team of the Central Valley Regional Water Board accepted Settlement Agreement and Stipulation for Entry of Administrative Civil Liability Order R5-2020-0543. The comment period ended August 6, 2020.

DFA staff recommend providing an additional \$2,000,000 in SCG funding and reducing the interest rate to 0% for the CWSRF loan. The reduced interest rate will be applied to the existing loan and any additional loan DFA approves for the Project. The SCG increase brings the City's total grant amount to \$8,000,000 for this Project (\$7,800,161 in the construction agreement and \$199,839 in the planning agreement), which is the maximum grant amount per community over a 5-year period permitted under the 2017/18 CWSRF Intended Use Plan (IUP) that was in place when the Project was funded.

Both the 2017/18 and 2020/21 IUPs have a maximum grant amount a small, disadvantaged community can receive for a CWSRF-eligible wastewater projects, such as wastewater treatment plant upgrade projects, of \$6,000,000. Because the requested grant amount exceeds this amount, DFA staff are presenting this Project to the State Water Board for approval.

The City also received \$499,250 from the State Water Board in planning grant funding for two other wastewater collection system projects in 2016. Construction for one of their collection system projects was funded through USDA. The City submitted a CWSRF/SCG construction application requesting \$4,553,000 for their Sewer Interceptor Improvements Project (CWSRF Project No. C-06-8229-210). The 2020-2021 IUP increased the maximum grant amount per community over a five-year period to \$10,000,000 so if the current funding request is approved, the City would be eligible for

approximately \$1,500,750 in grant and the remaining project costs (\$3,052,250) could be funded with CWSRF loan or another funding source.

POLICY ISSUE

Should the State Water Board adopt a resolution authorizing the Deputy Director of DFA to approve up to an additional \$2,000,000 in SCG funding for the City's Project, not to exceed a total SCG funding amount of \$8,000,000?

Should the State Water Board adopt a resolution authorizing the Deputy Director of DFA to approve 0% interest on the City's CWSRF loan for the Project?

FISCAL IMPACT

The Project will be funded with SCG funding from fiscal year 2020-2021 which is estimated at \$55 million. Allocating the additional \$2,000,000 in funding to this Project will reduce the amount of funding available for new projects. The interest lost to the CWSRF Program by lowering the interest rate from 1.8% to 0% on the existing loan amount of \$1,336,930 over the course of a 30-year term, would equate to \$408,531. The increase in loan amount will be determined after the Project is re-bid. A credit review will be completed when the bids are submitted to ensure the City can afford repayment of any additional CWSRF loan.

REGIONAL BOARD IMPACT

None.

HUMAN RIGHT TO WATER ANALYSIS

DFA staff have considered Section 106.3 of the Water Code (added by Assembly Bill 685 (Stats. 2012, ch. 524). This proposed action supports the Human Right to Water because it will assist a severely disadvantaged community by reducing the financial impact to rate payers.

STAFF RECOMMENDATION

The State Water Board should adopt a resolution authorizing the Deputy Director of DFA to approve up to an additional \$2,000,000 in SCG funding for the District's Project, not to exceed a total SCG funding amount of \$8,000,000, and approve 0% interest for the CWSRF loan.